

Macedonian Economy at a Glance (as of 08/27/2004)

Real Sector

- ◆ The recovery of the Macedonian economy in 2003 under the Stand-by arrangement with the IMF, stopped in 2004. Political and macroeconomic stability were maintained, though.
- ◆ After 2001 decline of 4.5%, the real GDP in 2002 was barely positive at 0.9%. In 2003 real GDP grew by 3.2%. Nominal GDP = US\$ 4,604 million, GDP per capita = US\$ 2,192. GDP in Q1 of 2004 fell by 3.6%. Projected real GDP growth for 2004 is 4.0% - unlikely to be met.
- ◆ The upward trend of the industrial output since 2002 was halted in 2004. In the period January – June 2004 it dropped by 21.6% relative to the same period of previous year.
- ◆ Average annual inflation rate (CPI-based) in 2003 was 1.2%. At the end of July 2004 it was 0.3%. Projection for 2004 = 2.8%.
- ◆ Unemployment rate in 2003: 36.7%¹; Employment rate in 2003: 34.5%¹
Number of employed persons at the end of May 2004: 261,329², down by 5.5% on annual basis.
Number of unemployed persons at the end of July 2004²: 395,308 - up by 3.2%.
- ◆ Wage policy - Nominal average net wage per worker in May 2004: Denar 12,551 - up by 6.4% on annual basis
- ◆ 30.2% of the population lived below the poverty line (USD \$75/month) in 2002 - an increase from 22.7% in 2001
- ◆ the “gray economy” is estimated to be between 15 and 42% of GDP

Fiscal Sector

- ◆ Some of the expenditures related to implementation of the FWA extended in 2004. The stand-by arrangement with the IMF successfully finished on August 15. Financial transactions tax abolished as of January 1, 2003. Collection on major revenues improved in 2003 and 2004. Fiscal discipline and refraining from spending resulted in restrictive fiscal policy.
Total budget revenues at the end of June 2004: Denar 27,991 million – up by 5.7% on cumulative basis.
Total budget expenditures at the end of June 2004: Denar 27,354 million – up by 4.0%.
Budget surplus at the end of June 2004: Denar 637 million = 0.3% of GDP.
IMF's end-of-2004 budget balance projection: Central Govt. -0.9%; General Govt. -2.5%.
- ◆ Tax collection at the end of June 2004:

Type of revenue	% of total revenues	% of 2004 plan
Personal income tax: Denar 3,661 million	13.1	45.0
Profit tax: Denar 1,464 million	5.2	41.8
VAT: Denar 12,582 million	45.0	52.4
Excises: Denar 4,807 million	17.2	44.8
Import duties: Denar 2,724 million	9.7	45.4

External Sector

- ◆ At the end of June 2004:
Exports: US\$ 724.2 million - up by 11.5%; Imports: US\$ 1,319.3 million - up by 18.6%;
Import/export coverage ratio: 54.9%; Trade deficit: US\$ 595.1 million – 11.7% of GDP
- ◆ Trade with USA at the end of June 2004:

¹ Data from the Labor Force Survey - Statistical Office of the Republic of Macedonia

² Data from the Employment Fund

Exports: US\$ 28.8 million – 4.0% of the total Macedonian exports

Imports: US\$ 24.8 million – 1.9% of the total Macedonian imports

- ◆ Current account deficit at the end of May 2004: US\$ 285.3 million = - 5.6% of GDP
- ◆ On April 4, 2003 Macedonia officially became member of the WTO. Stabilization and Association Agreement officially went into force on April 1, 2004.
- ◆ Free trade agreements with: Slovenia, Croatia, FR Yugoslavia, Bulgaria, Turkey, Ukraine, Albania, Bosnia & Herzegovina, Romania and EFTA
- ◆ FDI at the end of May 2004: US\$ 83.6 million
- ◆ External debt at the end of June 2004: US\$ 1,775.5 million; 35.0% of GDP
- ◆ Foreign exchange reserves at the end of June 2004: US\$ 859.9 million

Monetary Sector

- ◆ The Central Bank (CB) in 2003 pursued more relaxed monetary policy due to a disciplined fiscal policy. As a result, the interest rates came down. Monetary policy in 2004 was again strengthened.
Average nominal weighted lending rate in June 2004: 12.46%
Average nominal weighted deposit rate in June 2004: 6.52%
Money market weighted interest rate in June 2004: 6.52%
- ◆ The CB successfully resisted speculative attacks against the denar and is maintaining it at the targeted level against the euro.
- ◆ Total deposits with banks at the end of June 2004: Denar 59,286 million - up by 26.0% on annual basis. 92.4% of the total are short-term deposits, while 64.6% of the total are foreign currency deposits.
- ◆ Total bank credits at the end of June 2004: Denar 56,095 - up by 23.9% on annual basis. 85.6% of the total bank credits are in denars.

Relations with international institutions and organizations

- ◆ The Staff Monitoring Program with the IMF went off-track at the end of May 2002 as the IMF mission did not approve several GOM's measures (public sector wage bill increase, TAT pyramid scheme bailout, pre-payment of frozen f.c. bonds). The 14-month stand-by arrangement (SBA), approved by the Board on April 30, 2003 was successfully completed on August 15 with GOM withdrawing the last tranche of about US\$ 11 million.
- ◆ World Bank Group - FESAL II- arrangement with the World Bank was completed with disbursement of the third tranche of US\$ 20.5 million in January 2004. In April 2002, PSMAC credit for restructuring public administration was approved by the WB Board. In June 2003 US\$ 17.1 million were disbursed to GOM. PSMAL credit worth US\$ 49.8 million was signed and approved in April 2004.
- ◆ EBRD - In the period 1993-2003, EBRD financed projects worth euro 306 million for: private sector development, restructuring the banking sector, development of financial institutions, supporting SME's, infrastructure projects, AG projects, etc. Co-founded a micro-finance bank ProCredit that began operations in July 2003, and extended over 1,000 loans so far.
- ◆ European Union -macro financial assistance of €80 million consisting of €50 million loan and €30 million grant were approved in 2000. The last tranche of €18 million loan and €8 million grant was disbursed in late December 2003. Additional €18 million grant was also disbursed in 2003. EU announced that €110 million would be granted to Macedonia in the period '02-'04.
- ◆ EIB - in the period 1998-2000 extended two loans in the total amount of US\$ 121.0 million
- ◆ International Donor's Conference: held on March 12, 2002. GOM received total of €307 million. Out of that, €73 million were soft credits and €234 grants. GOM received most of the aid after conclusion of an arrangement with the IMF.